

Message Text

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PAGE 01 ROME 12303 271958Z

64

ACTION EUR-12

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E.O. 11652: N/A

TAGS: EFIN, ETRD, IT

SUBJECT: NEW SHORT-TERM EXPORT CREDIT PROGRAM

REF: ROME 11528 DATED AUGUST 11, 1975

PASS TREASURY AND EXIM

1. SUMMARY. IN ADDITION TO EXPANSION OF EXPORT CREDIT AND INSURANCE PROGRAMS AS PART OF RECENT ITALIAN ANTI-RECESSION PACKAGE ON AUGUST 25, BANK OF ITALY ANNOUNCED NEW TEMPORARY PROGRAM TO ASSIST SHORT-TERM FINANCING OF EXPORTS. DURING FOUR-MONTH PERIOD SEPTEMBER 1 TO DECEMBER 31, 1975 EXPORTERS MAY BENEFIT FROM CREDITS OF UP TO 90 DAYS WHICH WILL BE ELIGIBLE FOR REFINANCING BY ITALIAN EXCHANGE OFFICE (UIC) FOR UP TO ONE-HALF OF VALUE OF SUCH CREDITS AT INTEREST RATE OF 8.5 PERCENT. END SUMMARY.

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PAGE 02 ROME 12303 271958Z

2. ON AUGUST 25 BANK OF ITALY ANNOUNCED NEW TEMPORARY

PROGRAM TO ASSIST EXPORTERS. THIS PROGRAM SUPPLEMENTS OTHER MEASURES IN RECENT ITALIAN ANTI-RECESSION PACKAGE REPORTED PARA 3 OF REFTEL. PROGRAM WILL BE ADMINISTERED BY ITALIAN EXCHANGE OFFICE (UIC) WHICH, ALTHOUGH TECHNICALLY DISTINCT FROM BANK OF ITALY, IS UNDER THAT INSTITUTION'S AEGIS. PROGRAM APPLIES DURING FOUR-MONTH PERIOD FROM SEPTEMBER 1 TO DECEMBER 31, 1975, TO EXPORTS WHICH ARE FINANCED FOR PERIOD OF UP TO 90 DAYS. THESE CREDITS ARE ELIGIBLE FOR REFINANCING OF UP TO ONE-HALF OF THEIR VALUE WITH UIC AT INTEREST RATE OF 7.0 PERCENT TO WHICH BANKS ADD THEIR COMMISSION OF 1.5 PERCENT. FOR EXAMPLE, ELIGIBLE EXPORT CREDIT WHICH WOULD OTHERWISE BEAR MARKET INTEREST RATE OF 12.5 PERCENT CAN HAVE 50 PERCENT OF ITS VALUE REFINANCED AT 8.5 PERCENT, THUS RESULTING IN AN EFFECTIVE INTEREST RATE FOR WHOLE CREDIT OF 10.5 PERCENT.

3. WHILE THEORETICALLY COMMERCIAL BANKS COULD FINANCE NEW SHORT-TERM CREDIT WITH THEIR OWN FUNDS OR FROM EUROMARKET BORROWINGS, INTEREST RATES WHICH THEY WOULD HAVE TO CHARGE ITALIAN EXPORTERS WOULD BE RATHER HIGH. BOI SOURCE (MAGNIFICO) CONFIRMED TO EMBOFFS THAT UIC WOULD PROVIDE ALTERNATIVE SOURCE THROUGH FOREIGN CURRENCY DEPOSITS WITH BANKS WHICH IN TURN COULD SWAP FOREIGN EXCHANGE FOR LIRA WITH UIC AT FIXED EXCHANGE RATE. BANKS COULD ALSO SWAP FOREIGN EXCHANGE PROCEEDS FROM ANY EUROMARKET BORROWINGS, IN BOTH CASES AVOIDING EXCHANGE RISK.

4. COMMENT. USE OF RATHER COMPLICATED FINANCING MECHANISM IS MOTIVATED BY TWO MAIN FACTORS: (1) NEED TO PROVIDE LOW COST FINANCING IN ORDER TO BE COMPETITIVE, AND (2) NEED TO ASSIGN TO UIC, RATHER THAN TO BOI, RESPONSIBILITY FOR NEW REFINANCING FACILITY SO AS TO AVOID BAD PRECEDENT OF BOI ASSUMING OPEN-ENDED CREDIT COMMITMENT. (BOI ESTIMATES THAT NEW CREDIT MAY REACH MAXIMUM OF 1800 BILLION LIRE DURING LIFE OF PROGRAM.) FACT THAT NEW CREDIT PROGRAM WILL BE ADMINISTERED BY THE ITALIAN EXCHANGE OFFICE WHICH DOES NOT NORMALLY PARTICIPATE DIRECTLY IN ITALIAN LIMITED OFFICIAL USE

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PAGE 03 ROME 12303 271958Z

EXPORT CREDIT PROGRAMS ALSO SHOWS IMPORTANCE ATTACHED BY ITALIAN GOVERNMENT TO PULLING OUT ALL STOPS TO PROMOTE EXPORTS TO ASSIST IN REJUVENATING SLACK ECONOMY. VOLPE

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